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FOR HARTMAN

FOLLOWING SENT ROME FROM SECSTATE WASHDC 23 MAY 75:

QUOTE C O N F I D E N T I A L STATE 120691

E.O. 11652: GDS

TAGS: ENRG, IT, US

SUBJECT: US-ITALY BILATERAL ENERGY WORKING GROUP

REF: ROME 6621

1. SUMMARY: ITALIAN-US ENERGY WORKING GROUP MET MAY 12 IN WASHINGTON. ITALIAN SIDE LED BY MFA ENERGY COORDINATOR MINISTER GIOVANNI MIGLIUOLO INCLUDED ACHILLE ALBONETTI (CNEN), MARINO VALTORTA AND FRANCO REMONDINO (ENEL), FERNANDO FIUMARA (MINISTRY STATE HOLDINGS), VITTORIO BARATTIERI (BANK OF ITALY), GIUSEPPE BENEVOLO (ENI), AND MARCELLO SERAFINI & MICHELE COSENTINO (ITALIAN EMBASSY WASHINGTON). ITALIAN SIDE DESCRIBED IN CONSIDERABLE DETAIL THE MAGNITUDE OF ITALY'S NUCLEAR POWER PLANT PROGRAM AND THE IMPERATIVE FOR US AND OTHER EXTER-
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NAL ASSISTANCE IF GOI OBJECTIVES ARE TO BE ACHIEVED.

ITALIANS APPEAR PRESENTLY MORE SERIOUSLY CONCERNED OVER ANTICIPATED BOTTLENECKS IN NUCLEAR FUEL SUPPLY AND ACCESS TO ENRICHMENT AND REPROCESSING TECHNOLOGY THAN ISSUE OF FINANCING. US DELEGATION, HEADED BY EB DEPUTY ASSISTANT SECRETARY KATZ AND INCLUDING PARTICIPANTS FROM STATE, EXIM, ERDA, NRC, TREASURY AND FEA, PROVIDED USG VIEWS, NOTING THAT ON A NUMBER OF CONCERNS WE ARE UNABLE TO RESPOND AS US POLICY CURRENTLY UNDER FORMULATION. ITALIANS SUBMITTED COMPREHENSIVE WORKING PAPER CONTAINING A NUMBER OF PROPOSALS FOR US ASSISTANCE WHICH WE AGREED TO REVIEW CAREFULLY AND MAKE WRITTEN COMMENTS UPON. (COPY POUCHED TO EMBASSY) BOTH SIDES AGREED TO MEET AGAIN AT UNSPECIFIED TIME AND PLACE. END SUMMARY.

2. ITALIANS (VALTORTA) OPENED SESSION WITH A GENERAL PRESENTATION OUTLINING THEIR 20,000 MW NUCLEAR PROGRAM AND FITTING IT INTO CONTEXT OF IEA COMMITMENT TO REDUCE DEPENDENCE ON IMPORTED OIL. ALBONETTI OF CNEN DWELT AT CONSIDERABLE LENGTH UPON WHAT ITALIANS SEE AS PRINCIPAL IMPEDIMENTS TO A SUCCESSFUL NUCLEAR PROGRAM: NATURAL URANIUM SUPPLY, ENRICHMENT SUPPLY AND TECHNOLOGY, AND REPROCESSING TECHNOLOGY. ALBONETTI STATED THAT US HELP IN THESE SPECIFIC AREAS WAS ESSENTIAL IF GOI PROGRAM TO SUCCEED. URANIUM ORE: MORE IMPORTANT THAN PRICE TO ITALIANS IS ASSURED SUPPLY. THEY SEE US AS KEY SUPPLY SOURCE AND MARKET STABILIZER BY VIRTUE OF OUR DUAL ROLE AS IMPORTANT ORE PRODUCER AND CONSUMER. ENRICHMENT SUPPLY AND TECHNOLOGY: ITALIANS ANTICIPATE SHORTFALL UP TO 1990 OF 18,000 TONS OF SWU'S, AND SEEK ASSURANCE THAT AT LEAST A PORTION OF THIS DEFICIT CAN BE SUPPLIED BY US UNDER STABLE MARKET CONDITIONS. ON TECHNOLOGY, ITALIANS WOULD LIKE ASSURANCES OF GREATER ACCESS TO US KNOW-HOW IN AREAS OF ENRICHMENT AND REPROCESSING AND CONDITIONING OF NUCLEAR FUELS.

3. US (NININGER-ERDA) POINTED OUT THAT NATURAL URANIUM SUPPLY IS A WORLDWIDE CONCERN AND THAT DESPITE OUR PRESENT ROLE AS AN IMPORTANT PRODUCER WE COULD WELL BECOME NET IMPORTER. HE NOTED THAT LOW URANIUM ORE PRICES PREVAILING UNTIL RECENTLY DISCOURAGED US INDUSTRY FROM

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MAKING NEW INVESTMENT IN MINES AND MILLS, BUT THAT HIGHER PRICES ARE NOW BEGINNING TO BRING FORTH NEW EXPLORATION, MINE AND MILL CONSTRUCTION. HE NOTED, FURTHER, THAT URANIUM PRODUCTION IN US IS ENTIRELY IN PRIVATE SECTOR AND AT PRESENT TIME URANIUM PRODUCERS ARE FREE TO SELL TO FOREIGN CUSTOMERS. ON ENRICHMENT AND PROCESSING, US (HELFRICH-ERDA) EXPLAINED THAT WE ARE UNABLE TO SIGN ANY NEW ENRICHMENT CONTRACTS FOR THE

PRESENT. ONCE A DECISION HAS BEEN TAKEN ON NEXT INCREMENT OF US ENRICHMENT CAPACITY, WHICH WE HOPE WILL BE MADE SHORTLY, WE EXPECT TO BE ABLE TO ENTER INTO NEW CONTRACT COMMITMENTS WITH ITALIANS AND OTHERS. WE POINTED OUT THAT CONSIDERABLE PORTION OF NUCLEAR INDUSTRY, PARTICULARLY REPROCESSING, IS IN PRIVATE HANDS ON COMMERCIAL BASIS WHICH VIRTUALLY PRECLUDES ANY DIRECT USG ROLE.

4. MIGLIUOLO EXPRESSED DISAPPOINTMENT THAT US UNABLE TO RESPOND MORE POSITIVELY ON THESE ISSUES. HE FELT WAYS MUST BE FOUND TO OVERCOME CONSTRAINTS AND BOTTLENECKS WHICH ALL AGREE EXIST. WHILE MIGLIUOLO UNDERSTOOD FREE ENTERPRISE STRUCTURE OF OUR ECONOMY; HE THOUGHT NEVERTHELESS THAT USG COULD EXERT LEVERAGE UPON PRIVATE US FIRMS ON BEHALF OF ITALY. THE MAGNITUDE OF THE ITALIAN PROGRAM, HE FELT, NECESSITATED GOING BEYOND TRADITIONAL COMMERCIAL CHANNELS. KATZ COMMENTED THAT CONSTRAINTS WHICH WE HAD BEEN DISCUSSING SHOULD NOT BE CONSTRUED AS DIMINISHING US INTEREST IN COOPERATING WITH ITALIANS. HE SUGGESTED WE WORK TO CLARTFY ISSUES AND THEN SEEK COOPERATION IN SPECIFIC AREAS WHERE POSSIBLE. HE ADDED THAT ONCE A POLICY DECISION HAS BEEN TAKEN ON FURTHER ENRICHMENT CAPACITY, WE WILL BE IN BETTER POSITION TO RESPOND TO ITALIANS, PARTICULARLY ON ENRICHMENT ACCESS.

5. ON FINANCING ISSUE ITALIANS CANDIDLY ACKNOWLEDGED THAT BEYOND EVALUATING EXPECTED OVERALL COST OF THE 20,000 MW PROGRAM, THEY HAVE NOT YET WORKED OUT A STRATEGY, APART FROM CONCLUDING THAT FINANCING WILL REQUIRE BOTH INGENUITY AND A MULTIPLICITY OF SOURCES. THEY ARE HOPING FOR EXIM FINANCING FOR A PORTION OF THE PROGRAM, BUT CLEARLY UNDERSTAND EXIM'S LIMITATIONS, AND ARE THUS CONFIDENTIAL

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GROPING FOR ALTERNATIVE POSSIBILITIES, INCLUDING OBTAINING INVESTMENT CAPITAL FROM OIL PRODUCING COUNTRIES. KATZ RESPONDED THAT THE FINANCING QUESTION IS ONE WHICH CONFRONTS US ALL, NOTING THAT OUR OWN UTILITY INDUSTRY IS FACED WITH SERIOUS PROBLEMS. HE SINGLED OUT THE PROBLEM OF PUBLIC UTILITY FINANCING AS ONE WE MIGHT STUDY TOGETHER, EITHER ON A BILATERAL BASIS OR IN THE MULTILATERAL CONTEXT OF THE IEA.

6. ALBRIGHT (EXIM VICE PRESIDENT FOR EUROPE) DESCRIBED THE GENERAL CONSTRAINTS UPON EXIM, NOTING THAT IT IS SUBJECT TO ANNUAL COMMITMENT CEILINGS--EG., \$3.5 BILLION IN DIRECT CREDITS IN FY 1975. HE SUGGESTED THAT EXIM'S ROLE SHOULD BE CONSIDERED AS THAT OF A CATALYST--TO MOBILIZE CAPITAL WHICH MIGHT OTHERWISE NOT BE AVAIL-

ABLE. HE CITED THE HEAVY CAPITAL DEMANDS FROM THE NUCLEAR SECTOR, ESTIMATING THAT EXIM ANTICIPATES SOME \$4 BILLION IN FINANCING REQUESTS FROM THIS SECTOR ALONE OVER THE NEXT 5 YEARS. WITH RESPECT TO THE ATTRACTION OF EXTERNAL CAPITAL, ALBRIGHT CITED AS IMPORTANT FACTORS A PUBLIC UTILITY'S RATE STRUCTURE, INTERNAL RETURN AND DOMESTIC SOURCES OF FINANCING TO COMPLETE THE PROJECT. HE NOTED THAT EXIM HAS HAD A LONG AND FRUITFUL RELATIONSHIP WITH ITALY THROUGH IMI AND LOOKS FORWARD TO PARTICIPATING IN THE US-ITALIAN ENERGY DIALOGUE INCLUDING THE MEDIUM AND LONG-TERM FINANCING OF THE ITALIAN PROGRAM.

7. MIGLIUOLO APPRECIATED THE EXIM PRESENTATION. HE ASKED FOR US VIEWS REGARDING THE PROSPECTS FOR ATTRACTING INVESTMENT CAPITAL FOR NUCLEAR PLANTS FROM OIL PRODUCING COUNTRIES. ALBRIGHT RESPONDED THAT WHILE EXIM'S CONTACTS WITH THE PRODUCERS HAVE NOT FOCUSED EXCLUSIVELY ON THE ENERGY SECTOR, EXIM HAS THE DISTINCT IMPRESSION THAT OIL PRODUCERS' PRIORITIES FOR COOPERATIVE FINANCING SEEM TO LIE IN THE POORER ARAB AND AFRICAN COUNTRIES. KATZ THOUGHT FINANCING SHOULD NOT IN ANY CASE BE CONSIDERED AN ABSOLUTE BOTTLENECK. THE ESSENTIAL WAS TO DESIGN PROJECTS WHICH ARE ECONOMICALLY FEASIBLE. IN THE CASE OF NUCLEAR PLANTS THIS WOULD IMPLY REALISTIC UTILITY RATE STRUCTURES.

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8. KATZ ASSURED MIGLIUOLO US WOULD STUDY ITALIAN WORKING PAPER THOROUGHLY AND RESPOND TO SPECIFICS IN WRITING. HE SUGGESTED WE WOULD EXPECT TO MEET AGAIN, EITHER IN WASHINGTON, ROME OR PARIS ON THE OCCASION OF A GOVERNING BOARD MEETING. WE MADE NO SPECIFIC COMMITMENT ON TIMING OF US REPLY OR FOLLOW-ON MEETING BUT WOULD HOPE TO RESPOND PROMPTLY. COPIES OF ITALIAN PAPER HAVE BEEN DISTRIBUTED TO INTERESTED US AGENCIES AND WE ARE TENTATIVELY SCHEDULING INTERAGENCY MEETING MAY 29 TO DISCUSS SPECIFIC GOI PROPOSALS.

9. GROUP ALSO HELD AN EXCHANGE OF VIEWS ON INTERNATIONAL ENERGY MATTERS, INCLUDING RESPECTIVE EVALUATIONS OF POST PREPCON SITUATION AND IEA WORK PROGRAM -- IN PARTICULAR ACTIVITIES OF SLT AND ELABORATION OF AGREEMENT ON ALTERNATIVE ENERGY SOURCES. MIGLIUOLO TOOK OCCASION TO REITERATE FACT THAT ITALIANS CONSIDER THE INTERNATIONAL ENERGY PROGRAM AS A WHOLE -- A COMBINATION OF COMMITMENTS WHICH ENTAIL AN EQUITABLE BALANCE OF COSTS AND BENEFITS. HE SUGGESTED THAT ASSISTANCE TO ITALY UNDER AUSPICES OF THE BILATERAL ENERGY WORKING GROUP WOULD

HELP THE GOI IN ITS CAMPAIGN TO CONVINC PARLIAMENT
AND PUBLIC OPINION OF THE MERITS OF IEP. INGERSOLL
UNQUOTE INGERSOLL

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